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29 May 2013

Michelle Groves
Chief Executive Officer
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Michelle

re: Service Target Performance Incentive Scheme – Network Capability Component

I am writing to confirm the basis on which the network capability component of the new service target performance incentive scheme (STPIS) may be applied to ElectraNet in the forthcoming regulatory control period from 1 July 2013 to 30 June 2018.

You would be aware that Grid Australia, in a submission on the new STPIS in 2012, expressed strong support for the new network capability component of the STPIS, and also commented on the desirability for early implementation of this component of the scheme.

You would also be aware that ElectraNet in its recent revised Revenue Proposal (lodged 16 January 2013) noted its intention to seek to have the new network capability component of the STPIS applied to ElectraNet in the coming regulatory control period.

Subsequent discussions with your officers have confirmed ElectraNet's legal advice that:

- The National Electricity Rules provide sufficient flexibility to enable the early application of the network capability component to ElectraNet, and a Rule change is not required for this purpose;
- The new STPIS published in December 2012 is also sufficiently flexible to accommodate the participation of a TNSP for a period of less than 5 years (as would be the case for ElectraNet); and
- A network capability incentive parameter action plan (NCIPAP) for a TNSP not yet participating in the network capability component of the STPIS may be submitted at any time for approval by the AER, provided the applicable requirements of the STPIS are satisfied (for a TNSP already subject to this component the NCIPAP would be submitted at the time of lodgement of a Revenue Proposal).

The purpose of this letter is, therefore, to confirm this understanding, and to outline the basis on which ElectraNet will be seeking to participate in the network capability component of the STPIS, as follows:

- Participation for the four regulatory years 2014-15 to 2017-18 (i.e. years 2 to 5 of the forthcoming regulatory control period);
- A proposed NCIPAP to be lodged with the AER later in 2013 in accordance with the applicable requirements of the STPIS, including the required consultation with AEMO;
- Public consultation on the proposal by the AER, as required, for a reasonable timeframe (e.g. 4-6 weeks);
- A determination by the AER enabling application of the network capability component of the STPIS from 1 July 2014.

We look forward to your confirmation of this approach and the applicable timeframes, and to working with your officers to this end. We also look forward to participating in the network capability component of the STPIS, and the benefits this will bring to consumers.

To discuss any aspect of this letter, please refer to Simon Appleby in the first instance, who may be contacted on (08) 8404 7324.

Yours sincerely



Rainer Korte
**Executive Manager Network Strategy
and Regulatory Affairs**